Gold Dollar

USDKG Whitepaper

Table of Contents

What Is It?

Introduction

The Evolution of Fintech and Decentralized Finance

The financial technology landscape, commonly known as fintech, has been undergoing a profound transformation over the past decade. This evolution is largely driven by the advent of cryptocurrencies and blockchain technology, which have introduced a new paradigm in how financial transactions can be conducted. Cryptocurrencies like Bitcoin introduced the concept of a decentralized financial system where transactions are processed without the need for traditional intermediaries such as banks, thereby enhancing privacy, reducing costs, and increasing accessibility. Bitcoin, launched in 2009, was the first cryptocurrency to gain widespread adoption, challenging traditional financial systems by offering a peer-to-peer electronic cash system. Its success has been documented in numerous studies, with one notable example being from the National Bureau of Economic Research (NBER), which discusses Bitcoin's role in reshaping monetary policy and financial systems[1].

This shift towards decentralization has been further catalyzed by blockchain development, providing a secure, transparent, and immutable ledger for transactions. The promise of fintech lies not only in financial inclusion but in creating an ecosystem where financial services can be more democratic, efficient, and less susceptible to the central points of failure inherent in traditional systems. PwC has discussed how blockchain could transform banking by improving transaction transparency and reducing settlement times[2], exemplifying the application of blockchain projects like Ripple's XRP, which focuses on facilitating cross-border payments with reduced costs and time.

Innovations like DeFi (Decentralized Finance) platforms now allow users to borrow, lend, trade, and earn interest on their assets through smart contracts, bypassing traditional financial institutions. Platforms like Compound, which enables users to lend out their cryptocurrency and earn interest, are the backbone of a decentralized financial ecosystem where all users are in control of their finances.

This movement towards a decentralized financial ecosystem is not only reshaping the industry but also challenging regulatory frameworks to adapt, aiming for a future where finance is accessible to anyone, anywhere, with just an internet connection

[1] Bordo, M. D., & Levin, A. T. (2017). "Central Bank Digital Currency and the Future of Monetary Policy." National Bureau of Economic Research.
[2] PwC. (2018). "Blockchain is here. What's your next move?" PwC Financial Services.

Stablecoins Overview

Stablecoins have emerged as a critical component within the cryptocurrency ecosystem, designed to bridge the gap between the volatile crypto market and the stability of traditional finance. These digital currencies are engineered to maintain a stable value relative to a specific asset or basket of assets, by pegging their worth to a reserve of assets, typically fiat currencies like the U.S. dollar, or commodities like gold[3]. Thereby offering the benefits of digital currency, like speed and low transaction costs, without the typical price swings of cryptocurrencies like Bitcoin or Ethereum.

Stablecoins can be categorized into several types:

Fiat-collateralized Stablecoins: These are backed by traditional currency reserves (e.g., USD, EUR) held in bank accounts, with examples like Tether (USDT) and USD Coin (USDC). They aim to maintain a 1:1 peg with the fiat currency.

Algorithmic Stablecoins: These do not rely on any physical backing but instead use algorithms to control supply in response to demand, aiming to keep the price stable. However, they are often criticized for their complexity and the risks associated with their stability mechanisms.

Crypto-collateralized Stablecoins: Use other cryptocurrencies as collateral, often requiring over-collateralization to manage volatility. DAI from MakerDAO is a prominent example where the collateral in their crypto holdings such as BTC and ETH must exceed the value of the circulating DAI stablecoins.

Real-World Asset (RWA) Backed Stablecoins: Unlike fiat-collateralized stablecoins, these are backed by tangible assets such as gold, offering a direct link to physical commodities. Our project, USDKG (Gold Dollar), exemplifies this model, where each token is backed by an equivalent amount of gold.

Leveraging USDKG's backing by a time-tested asset like gold offers several compelling advantages:

Enhanced Trust and Transparency: By associating each USDKG token with a gold reserve, we cultivate a high degree of trust among users. The knowledge that each token is supported by a verifiable, physical asset not only strengthens the credibility of the currency but also promotes transparency, as the backing can be audited and verified[4].

Liquidity Assurance: The gold reserve behind USDKG guarantees that there is always a tangible asset available to underpin the token's value, providing a form of liquidity that is insulated from the volatility and risks inherent to purely digital assets. This assurance of liquidity can be pivotal in maintaining market confidence and ensuring that users can convert their digital holdings into physical assets when necessary[5].

Stablecoins serve various purposes, from being a reliable store of value in crypto trading pairs to enabling seamless transactions in DeFi, offering a practical solution for users wary of the crypto market's volatility while still participating in the digital economy. They represent a pivotal innovation in the quest for a more stable and accessible financial infrastructure within the broader blockchain ecosystem.

[3] TechBullion. (2023). "Stablecoins: The Bridge Between Cryptocurrency and Traditional Finance." TechBullion.
[4] Investopedia. (2023). "Stablecoin." Investopedia.
[5] Kraken. (2023). "Gold-Backed Stablecoins: Bridging the Gap Between Gold and Crypto." Kraken.

The Stablecoin

USDKG Stablecoin

Kyrgyzstan Web3 Landscape

Kyrgyzstan is actively establishing a crypto-friendly legal framework to support its ambition of becoming a global hub for blockchain innovation. As part of this effort, the government is working on a National Web3 Strategy to define clear regulatory standards for digital assets and tokenized currencies. Recent legislation allows for the use of stablecoins, including USDKG, in export and import payments, facilitating cross-border trade. The framework also establishes legal recognition for blockchain-based assets and provides a path for KYC/AML compliance in stablecoin redemptions. This approach positions Kyrgyzstan as a leader in the crypto economy and offers regulatory clarity to investors, banks, and financial institutions looking to engage with blockchain-based financial instruments.

Introduction to USDKG

USDKG (Gold Dollar) is a fully gold-backed digital stablecoin issued by the Ministry of Finance of the Kyrgyz Republic, with private funding and management handled by an independent custodian/operator.

The primary objective of USDKG is to establish a globally trusted, gold-backed digital currency that can serve as a bridge between traditional finance and decentralized finance (DeFi). However, USDKG also aims to enhance financial inclusion, streamline cross-border payments, and facilitate the tokenization of real-world assets (RWAs). By enabling token holders to redeem USDKG for physical gold, USD, Kyrgyzstani som (KGS), or cryptocurrency, the project introduces an unprecedented level of flexibility and choice for users. This multi-option redemption system increases user confidence while enhancing the utility of USDKG across multiple financial ecosystems.

On a national scale, USDKG is set to become a key instrument for trade and cross-border payments. Recent regulatory changes now allow USDKG to be used for import and export transactions, making it a viable payment method in Kyrgyzstan's international trade network. Local banks are expected to integrate USDKG into their payment infrastructure, further legitimizing its use as a financial instrument for businesses and institutions.

On a global scale, USDKG fills a critical gap in the stablecoin market. Users worldwide lack trust in the collateral assets and founding institutions of stablecoin issuers. USDKG solves this issue by providing a fully transparent, asset-backed alternative anchored to physical gold reserves — a universally trusted store of value. With third-party audited reserves and a public proof-of-reserve system, USDKG ensures a strict minimum 1:1 collateral ratio between the USDKG in circulation and the value of gold collateralized. This offers superior transparency and trust for retail investors, institutions, and sovereign entities.

The launch of USDKG is a foundational step in Kyrgyzstan’s broader Crypto Adoption Strategy. As the first component of a Tokenized Kyrgyzstan, USDKG will serve as the core payment system for a larger crypto economy. Every new financial system requires a trusted, transparent, and accessible means of payment, and USDKG aptly fulfills this role, by digitizing global commerce and reducing dependence on traditional banking infrastructure.

Key Product Features

USDKG is a distinctive stablecoin that offers many product features. Some are very unique to itself, while others are commonly shared across other stablecoins.

Stability through Gold Backing	Every USDKG token is fully backed by physical gold allocated under the authority of the Ministry of Finance of the Kyrgyz Republic, with custody and management handled by an independent Kyrgyz-registered private entity. The initial collateralization is set at $50 million in gold. This will further increase to $300 million after the main launch.
Transparency and Auditability	USDKG's gold reserves are subject to regular, independent third-party audits to confirm that each token is fully backed by physical gold. All audit reports are published publicly, ensuring full transparency and reinforcing the credibility of the reserve system.
Redeemability Options (Gold, Fiat, or Crypto)	Holders of USDKG can redeem their tokens for physical gold, U.S. dollars, Kyrgyzstani som, or approved cryptocurrencies following KYC/AML procedures, whichever the user prefers.
Compliance with International Standards	USDKG ensures compliance with FATF guidelines by requiring KYC/AML checks for all redemption requests. On top of that, Kyrgyz legislation will soon allow USDKG to be used as a settlement instrument for import and export payments, integrating it into Kyrgyzstan's cross-border trade system. Local banks in Kyrgyzstan will support USDKG payments, further strengthening its role as a reliable instrument for cross-border trade.
Availability	USDKG will launch on Ethereum and Tron, with future expansions to additional high-uptime, globally accessible blockchains. As a blockchain-native asset, USDKG can be transacted 24/7, offering users continuous access beyond the constraints of traditional banking hours and holidays.
Speed	USDKG transactions are settled on the blockchain in minutes or seconds, unlike traditional banking payments, which can take days.

Certain technical and operational aspects of the USDKG project are currently under structured development in close collaboration with leading experts in law, finance, and digital asset compliance. These areas—including liquidity strategy, redemption mechanisms, proof-of-reserve procedures, roadmap milestones, and economic model design—will be clearly defined and publicly detailed in the near future.

Potential Use Cases

USDKG's versatility and gold-backed stability position it as a critical financial tool for global commerce, DeFi, and financial system integration. This is why USDKG has such a wide range of potential use cases.

1. Facilitate Foreign Economic Activities

USDKG serves as a trusted instrument for cross-border trade and international payments, offering a stable, transparent, and efficient settlement mechanism.

Export & Import Payments	Thanks to recent Kyrgyz legislation, USDKG can be used as a recognized settlement tool for import and export transactions.
Trade with Non-Fiat Partners	USDKG enables trade with partners in countries with weak or volatile currencies by providing a stable, gold-backed payment option.
Reduced Reliance on SWIFT	Unlike traditional international payments that rely on SWIFT or intermediary banks, USDKG enables direct blockchain-based payments that are faster, cheaper, and available 24/7.

2. Integration into DeFi Platforms

Ethereum and other blockchain networks allows it to participate in the Decentralized Finance (DeFi) ecosystem, unlocking a range of financial services.

Lending and Borrowing	Users can deposit USDKG into DeFi lending protocols to earn interest or use it as collateral to borrow other cryptocurrencies.
Liquidity Pools & Yield Farming	USDKG can be added to liquidity pools on decentralized exchanges, allowing users to earn fees for providing liquidity.
Collateral for Stablecoin Derivatives	DeFi users can utilize USDKG as collateral for derivatives, like stablecoin futures or synthetic assets, enhancing financial opportunities within the DeFi space.

3. Gateway Between Fiat & Crypto on Regulation Exchanges

USDKG acts as a bridge between traditional finance and the crypto world, offering a pathway to move between fiat, gold and crypto.

On / Off-Ramp for Fiat-to-Crypto	USDKG enables seamless conversion between fiat currencies and cryptocurrencies, enhancing accessibility and liquidity in the digital asset market.
Regulatory Compliance	Since USDKG meets KYC/AML standards and is recognized under Kyrgyz law, it can be integrated with the top exchanges.

4. Collateral for Loans and Credit Facilities

USDKG's gold-backed stability and verifiable reserve status make it a strong form of collateral for both DeFi and traditional lending markets.

DeFi Collateralization	Users can pledge USDKG as collateral for crypto loans on DeFi platforms, giving them access to liquidity without selling their holdings.
Institutional Loans	Banks, financial institutions, and sovereign wealth funds can use USDKG as a form of collateral for large-scale loans or credit facilities.
Reduced Risk of Default	Since USDKG is backed by a physical asset (gold), it provides lenders with the assurance that loans are secured by tangible, verifiable collateral.

5. Payment System for Tokenized Assets

Asset Tokenization Payments	Tokenized assets (like tokenized real estate, bonds, or commodities) need a stable, transparent payment method. USDKG can serve as the default payment token for buying, selling, or transferring these tokenized assets.

Competitive Advantages

USDKG stands out as a new standard for stablecoins, offering several distinct competitive advantages over traditional fiat-backed stablecoins, crypto-collateralized stablecoins, and algorithmic stablecoins. By leveraging gold-backed stability, state-backed assurance, and a strict compliance structure, USDKG addresses many of the industry's most pressing challenges, including transparency, liquidity, and trust.

Below is a comparison of USDKG with other types of stablecoins, followed by an outline of its key competitive advantages

	USDKG (Gold-Backed)	Other Stablecoins (Fiat-Backed)
Collateral Type	**Physical Gold**	Cash, Cash Equivalents, Debt Instruments
Issuer	**State-Backed, Privately-Managed**	Private Companies (Tether, Circle)
Compliance	**KYC /AML Compliance**	Varies (Some KYC, Some none)
Redemption Options	**Gold, Fiat, Crypto**	USD (Fiat) Only
Transparency	**Public, Audited Proof-of-Reserves**	Public, Audited Proof-of-Reserves
Trust Mechanism	**State-Backed, Gold-Backed**	Trust in Issuer's Banking Reserves
Redemption Flexibility	**Multiple Redemption Options**	Fiat Redemption Only
Audit Frequency	**Regular, Independent Audits**	Unfrequent, Unknown

1. Gold-Backed Collateralization

USDKG's most notable competitive edge is its 100% gold-backed reserve, which provides added confidence in the token's intrinsic value.

Tangible Asset Backing	Unlike fiat-backed stablecoins (which are backed by debt instruments, commercial paper, or cash), USDKG is backed by physical gold.
Redemption Confidence	Users know that USDKG is always backed by a verifiable, hard asset (gold), offering a layer of security that surpasses fiat-backed reserves, which are susceptible to market volatility and systemic bank risk.
Supply Control	New USDKG tokens can only be minted after a third-party audit confirms the addition of new gold collateral, ensuring that token issuance is strictly controlled and fully backed at all times.

2. State-Backed Assurance

Unlike privately issued stablecoins like USDT or USDC, USDKG benefits from state-level credibility and trust. While it is issued by the Ministry of Finance of the Kyrgyz Republic, its reserves, custody, and day-to-day administration are managed by an independent Kyrgyz-registered private entity, bringing institutional-grade trust alongside market-driven efficiency.

Government-Backed Issuance	USDKG is issued by the Ministry of Finance of the Kyrgyz Republic, however as previously mentioned it is privately funded and operated by an independent Kyrgyz entity.
State-Endorsed but Private Management	To avoid classification as a CBDC, operational control and collateral management of USDKG has been assigned to a privately registered entity. This structure ensures alignment with global stablecoin standards while preserving oversight from the Ministry of Finance.
Bank & Institutional Partnerships	Local Kyrgyz banks will support USDKG for trade settlements, ensuring it has the necessary infrastructure for broad adoption in Kyrgyzstan's export/import economy.

3. Full Transparency & Proof of Reserves

One of the most significant differentiators of USDKG is its full public audit transparency. While fiat-backed stablecoins often face criticism for opaque reserve disclosures, USDKG employs a proof-of-reserve system that is publicly accessible and regularly verified.

Public Audit Reports	Independent third-party audits are conducted to verify that the total gold collateral matches the USDKG supply. Audit reports are published publicly to promote transparency and accountability.
Strict Issuance Controls	New USDKG tokens can only be minted once independent auditors confirm that new gold collateral has been added, ensuring a 1:1 gold reserve backing for every token issued.
Multi-Layer Accountability	USDKG's collateral is managed by a private Kyrgyz-registered company independent from the state entity. This separation of roles ensures independent operational control and prevents USDKG from being classified as a CBDC.

4. Compliance with International Standards

USDKG is structured to comply with KYC/AML standards under the Financial Action Task Force (FATF) guidelines, which increases its acceptance and adoption potential in regulated financial ecosystems.

KYC/AML Compliance	Redemption requests for gold, fiat, or crypto must pass KYC/AML verification, ensuring that USDKG aligns with international anti-money laundering laws.
Legal Trade Recognition	New Kyrgyz laws recognize USDKG as a valid settlement instrument for international trade, enabling it to be used for import/export transactions.
Global Exchange Listings	USDKG's strong compliance framework makes it more likely to be listed on regulated crypto exchanges, giving users a broader range of on-ramps and off-ramps.

How It Works- Legally

Legal Framework

Legal Structure

USDKG is issued by the Ministry of Finance of the Kyrgyz Republic, providing a foundation of sovereign legitimacy and regulatory oversight. However, all operational responsibilities—including gold custody, collateralization processes, and token issuance controls—are handled by an independent Kyrgyz-registered private entity. This entity manages the physical gold reserves in accordance with strict custody protocols and engages third-party auditors to ensure full reserve transparency. It aligns USDKG with international standards for privately governed stablecoins, enabling scalable integration into both decentralized finance (DeFi) ecosystems and regulated financial markets.

Gold Transparency

Reserves Composition

Gold reserve audits are performed by Kreston Global, an independent third-party international accounting network, in accordance with International Standard on Related Services (ISRS) 4400 (Revised), issued by the International Auditing and Assurance Standard Board (IAASB).

USDKG maintains a commitment to transparency by making independent reserve reports publicly accessible. These quarterly audits verify that circulating tokens remain fully backed by physical gold reserves.

KRESTON ITH
Digital Assets Ltd

CONFIDENTIAL

To the Board of Directors
Open Joint-Stock Company «Issuer of Virtual Assets»
17 Razzakova str.,
Pervomaysky District,
Bishkek,
the Kyrgyz Republic

30 November 2025

Agreed-Upon Procedures Report of Factual Findings in Relation to the Quarterly Verification of Open Joint-Stock Company «Issuer of Virtual Assets» (Company) Gold Reserves to the Board of Directors

Purpose

We have performed the procedures agreed with you and enumerated below with respect to the Gold Reserves held by the Company on 28th November 2025 as the backing asset to support the USDKG tokens (**USDKGs**) in circulation as at that time, as set forth in the Letter of Engagement (**LoE**) signed on the 13th day of August 2025.

Responsibilities of the Company

The Company has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement and is responsible for the subject matter on which the agreed-upon procedures are performed.

Our responsibilities

Our engagement was undertaken in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements', issued by the International Auditing and Assurance Standards Board (IAASB). An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Company, and reporting the findings, which are the factual results of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement made in accordance with the generally accepted auditing standards or procedures. Accordingly, we do not express an opinion or assurance.

View Audit by Clicking Below:

View Audit

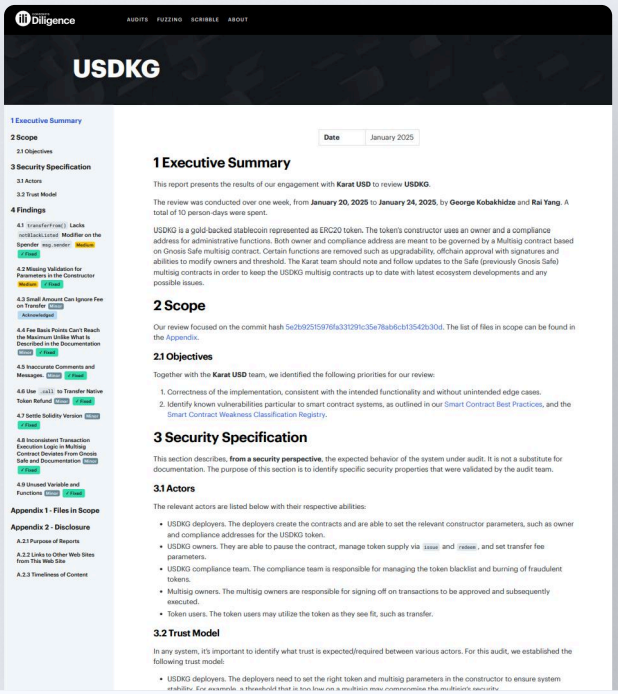
USDKG Transparency

USDKG has been audited by Consensys. Click the button below to view the full report.

CONSENSYS Diligence

Objectives

- Correctness of the implementation, consistent with the intended functionality and without unintended edge cases.
- Identify known vulnerabilities particular to smart contract systems



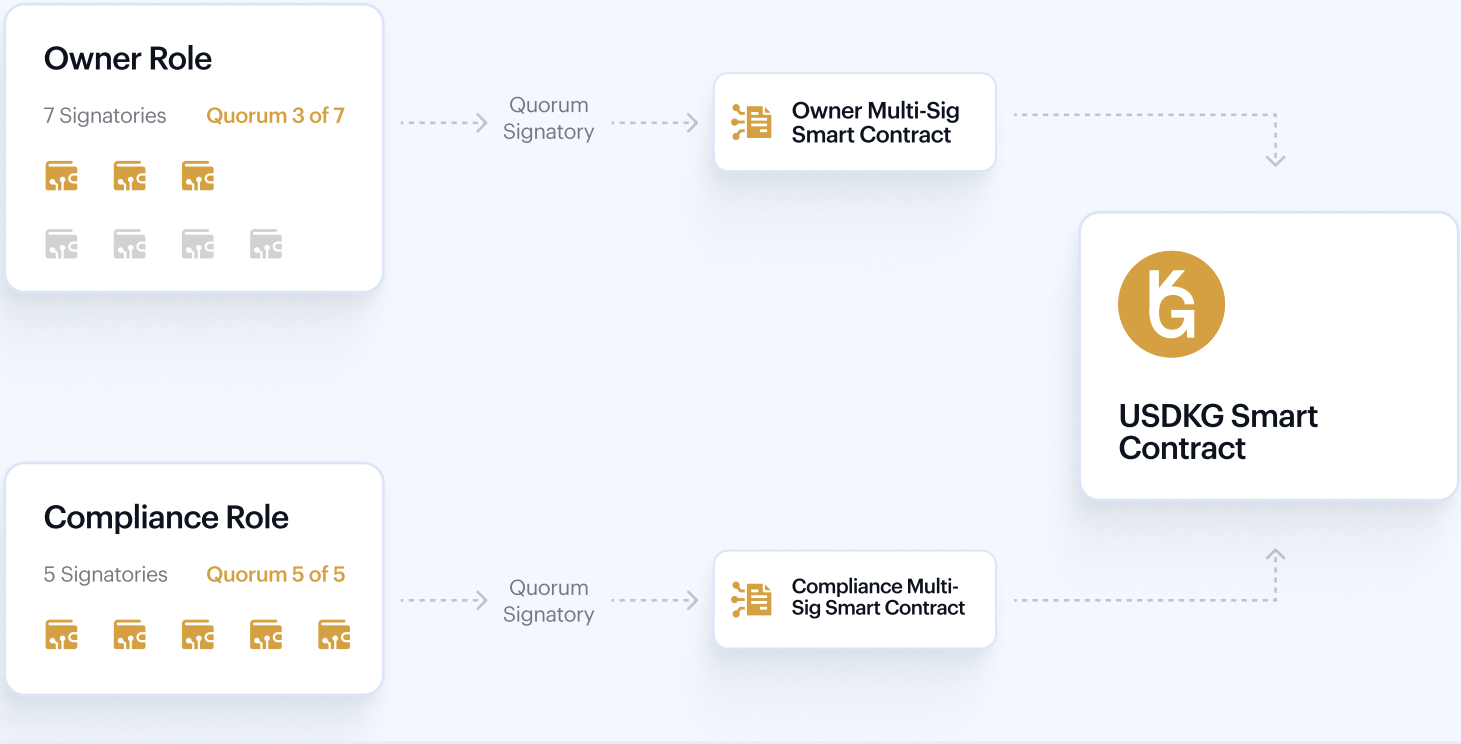
View Audit by Clicking Below

View Audit

[4] TechBullion. (2023). "Stablecoins: The Bridge Between Cryptocurrency and Traditional Finance." TechBullion.
[5] Investopedia. (2023). "Stablecoin." Investopedia.
[6] Kraken. (2023). "Gold-Backed Stablecoins: Bridging the Gap Between Gold and Crypto." Kraken.

The Moving Parts

Technical Realization



USDKG Technical Design

List of Functions

Programming Language: SOLIDITY

Mint	Issue USDKG tokens
Burn	Redeem USDKG tokens
Approve	Standard function to grant access for spending USDKG tokens
Transfer	Standard function for transferring USDKG tokens
TransferFrom	Standard function to allow wallets with granted access to withdraw USDKG tokens
Pause	Temporarily pause USDKG token transfers
Unpause	Resume USDKG token transfers
Blacklist	Freeze USDKG tokens on a specific wallet address
RemoveBlacklist	Unfreeze USDKG tokens on a specific wallet address
BurnBlackFunds	Burn frozen USDKG tokens
SetParams	Set fees for USDKG token transfers

Token Standard	Address
ERC-20	0xE820C06321E60d36257C666643Fa5436643445E3
TRC-20	TXZo12qvnEVKvU2zbfuQeMXKusWyxonwEG

Roles & Governance

Roles:

Owner: has access to the Mint, Burn, Pause, Unpause, and SetParams function.

Compliance: has access to the Blacklist, RemoveBlacklist, and BurnBlackFunds functions

Multisignature Smart Contracts Specification:

Owner:

A dedicated multi-signature (3 of 7) smart contract. The smart contract has 7 signatories, 7 unique wallet addresses representing the quorum participants. To initiate any transaction calling the USDKG function of the smart contract, which is accessible to the Owner role, 3 on-chain signatures from quorum participants are required. The quorum participants are the USDKG project team.

Compliance

A dedicated multi-signature (5 of 5) address for the Compliance role is established. The smart contract has 5 signatories, 5 unique wallet addresses representing the quorum participants. To initiate any transaction calling the USDKG function of the smart contract, which is accessible to the Compliance role, 5 on-chain signatures from quorum participants are required. The quorum participants are the USDKG project team.

[4] TechBullion. (2023). "Stablecoins: The Bridge Between Cryptocurrency and Traditional Finance." TechBullion.
[5] Investopedia. (2023). "Stablecoin." Investopedia.
[6] Kraken. (2023). "Gold-Backed Stablecoins: Bridging the Gap Between Gold and Crypto." Kraken.

Minimize Risks

Information on Risks

Investing in and utilizing USDKG involves various risks that stakeholders should carefully consider. These risks are categorized into technological and economic aspects, each with specific implications.

Technological Risks

1. Blockchain Risks

Volatility & Congestion

The blockchain ecosystem is subject to rapid changes, which can affect transaction costs and processing times. For instance, during periods of high demand, network congestion can lead to increased fees and delays[6].

2. Smart Contract Risks

Security Vulnerabilities

Smart contracts are susceptible to coding errors or exploits, which malicious actors can target. These vulnerabilities can lead to unauthorized transactions, loss of funds, or the freezing of user assets[7]. Code audits by third-party firms are essential to mitigate this risk[8].

[6] Binance Academy. (2023). "What is Blockchain Congestion?" Binance.
[7] ConsenSys. (2023). "Smart Contract Vulnerabilities and How to Mitigate Them." ConsenSys
[8] Chainalysis. (2023). "The Importance of Smart Contract Audits in Blockchain Security." Chainalysis

Economic Risks

1. Third-Party Risks

Dependence on Auditors

USDKG relies on third-party auditors to verify that the gold reserves match the total circulating supply. Any failure or misconduct by these auditors can undermine user trust in the stablecoin's backing. Transparency through publicly available audit reports mitigates this risk[9].

2. Market Risks

Gold Price Volatility

Fluctuations in the price of gold can impact the perceived stability of USDKG. Since USDKG is backed by gold, a decrease in the price of gold will reduce the amount of collateralization available for the outstanding USDKG tokens[10]. We mitigate this however by over-collateralizing and only minting a percentage of the value of gold held in reserves.

Perception of Currency Stability

USDKG is pegged to USD, meaning that if the USD experiences inflation or a loss in purchasing power, USDKG will be affected as well. This linkage ties the stability of USDKG directly to USD's global purchasing power, which differs from gold-backed financial instruments that track the price of gold[11].

3. Legal and Regulatory Risks

Compliance with International Regulations

The regulatory environment for stablecoins and blockchain technology is constantly evolving. USDKG must adapt to new regulations, especially those concerning anti-money laundering (AML), know your customer (KYC), and global stablecoin standards. Legal changes may require updates to operational structures, increased compliance costs, or the potential for delisting from certain platforms.[12].

4. Liquidity Risks

Redemption Demand

Maintaining adequate liquidity is essential to fulfilling user redemption requests for gold, fiat, or cryptocurrency. If liquidity becomes insufficient, users may experience delays or temporary limitations when converting their tokens into the desired form. This risk can be mitigated by maintaining sufficient reserves in gold, cash and cryptocurrency to ensure smooth and timely redemptions.

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[9] PwC. (2023). "The Role of Proof-of-Reserves in Stablecoin Transparency." PwC Whitepaper.
[10] World Gold Council. (2023). "Gold Price Volatility: What Drives It and How it Impacts Stablecoins." World Gold Council.
[11] Bank of International Settlements (BIS). (2023). "The Link Between USD Inflation and Stablecoin Pegs." BIS Research Report.
[12] FATF. (2023). "AML/CFT Regulations for Global Stablecoins." FATF Guidelines.
[13] CoinDesk. (2023). "Liquidity Management in Asset-Backed Stablecoins." CoinDesk.

"What's that mean?"

Glossary of Terms

DeFi (Decentralized Finance)

Decentralized Finance, or **DeFi**, refers to a financial system built on blockchain technology that aims to replicate and improve upon traditional financial systems without the need for intermediaries like banks or brokers. DeFi platforms allow users to engage in activities such as lending, borrowing, and trading of cryptocurrencies through smart contracts, which are self-executing contracts with the terms of the agreement directly written into code. DeFi promotes transparency, accessibility, and security in financial transactions.

Collateralization

Collateralization is the process of using an asset to secure a loan or a financial transaction. In the context of DeFi, collateral is often required to back loans to mitigate the risk of default. This means that if a borrower fails to repay the loan, the lender can seize the collateral to cover the loss. Commonly used collateral in DeFi includes cryptocurrencies like Bitcoin and Ethereum. Collateralization ensures that lenders have a form of security against potential losses in decentralized lending platforms.

Blockchain

A **blockchain** is a distributed ledger technology that records transactions across multiple computers in such a way that the registered transactions cannot be altered retroactively. Each block in the chain contains a number of transactions, and every time a new transaction occurs, it is added to the blockchain. This technology underpins cryptocurrencies like Bitcoin and Ethereum, providing a secure, transparent, and immutable record of all transactions. Blockchains are decentralized, meaning they are not controlled by any single entity, enhancing security and trust.

CBDC (Central Bank Digital Currency)

Central Bank Digital Currency (**CBDC**) is a digital form of a country's national currency issued by its central bank. Unlike cryptocurrencies, CBDCs are centralized and are regulated by government monetary policies. The aim of CBDCs is to combine the efficiency and security of digital currencies with the trust and stability of traditional fiat currencies. CBDCs can facilitate faster and more secure transactions and are seen as a way for governments to modernize the financial system.

Stablecoin

A stablecoin is a type of cryptocurrency designed to maintain a stable value by being pegged to a specific asset or basket of assets, such as fiat currencies (e.g., USD) or commodities (e.g., gold). Stablecoins combine the benefits of digital currencies, such as speed and transparency, with the stability of traditional assets.

Smart Contracts

Smart contracts are self-executing contracts with the terms of the agreement directly written into code. They operate on blockchain networks, ensuring automatic and tamper-proof execution when predefined conditions are met. This eliminates the need for intermediaries and increases transparency and efficiency in transactions.

Bitcoin

Bitcoin is the first decentralized cryptocurrency, created in 2009. It operates on a blockchain and uses a peer-to-peer network to enable secure, transparent, and immutable transactions without the need for a central authority. Bitcoin is often considered digital gold due to its limited supply and store of value properties.

Ethereum

Ethereum is a decentralized blockchain platform that allows developers to build and deploy smart contracts and decentralized applications (dApps). Unlike Bitcoin, Ethereum's primary purpose is programmability, making it a versatile platform for various use cases, including decentralized finance (DeFi) and tokenization.

Compliance

Compliance refers to adherence to laws, regulations, and standards, especially those related to financial operations, anti-money laundering (AML), and know-your-customer (KYC) requirements. In the context of blockchain and stablecoins, compliance ensures legal operation and builds trust among users, institutions, and regulators.

Cites & Sources

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[1] Bordo, M. D., & Levin, A. T. (2017). "Central Bank Digital Currency and the Future of Monetary Policy." National Bureau of Economic Research.
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